GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2692
ANSWERED ON:17.03.2006
INTEREST RATE ON SMALL SAVINGS
Mohite Shri Subodh

Will the Minister of FINANCE be pleased to state:

(a) whether the R.H.Patil Committee and RBI Study have recommended that the interest rate on small savings instrument be aligned with market rate;

(b) if so, the reaction of the Government thereto;

(c) the other recommendations of the R.H.Patil Committee on debt market reforms;

(d) whether the Government has examined these recommendations; and

(e) if so, reaction of the Government thereto?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a)& (b): Yes, Sir. The High Level Expert Committee on Corporate Bonds and Securitization, headed by Shri R.H.Patil, has, inter-alia recommended that the recommendations submitted by the various Committees appointed by the Government to review interest rates on small savings instruments need to be implemented to ensure that interest rates paid on small savings instruments are aligned with market rates.

The Expert Group on Administered Interest Rates under the Chainnanship of Dr. Y.V.Reddy, the then Deputy Governor, RBI, had also recommended, in September, 2001, that the interest rates on small savings schemes be aligned to the market through benchmarking to the average annual yields on Government securities of comparable maturity in the secondary market. Government accepted the recommendation and since then the interest rates have been revised with effect from 1 March, 2002 and March, 2003, based on changes in the benchmark yields.

(c) The other recommendations of the Committee, inter-alia, are:

I) Corporate Bond market

(1) A trade reporting dissemination system followed by an order matching system should be started for the corporate debt market to increase transparency and secondary market liquidity. Appropriate regulations/guidelines for setting up of such trading platform or trade matching systems may be prepared by the market regulator, Securities and Exchange Board of India.
(2) Corporate bond issuers may be required to make only some incremental disclosures every time they approach the market with a fresh issue either to the public or through a private placement.
(3) Retail investors should be encouraged to participate in the market through stock exchanges.
(4) Repos in corporate bonds may be permitted by RBI to be operated by the proposed clearing entities for corporate bonds.
(5) Interest rate derivatives market may be developed further and new products should be launched.
(6) The scope of investment by provident/pension/gratuity funds and insurance compames In corporate bonds should be enhanced subject to appropriate rating requirement.
(7) The stamp duty on debt instruments should be made uniform across all States and be linked to the tenor of the securities, with an overall cap.
(8) TDS rules for corporate bonds should be similar to the ones applicable to Government Securities.

II) Securitized Debt Market

(1) Securitized instruments should be notified as `securities` under Securities Contracts (Regulation)Act, 1956
(2) To develop the securitized debt market, uniform and affordable levels of stamp duty may be evolved for debt instruments, Pass Through Certificates (PTCs) and security receipts (SRs).
(3) No withholding tax should be paid by the borrowers to the securitization trust. Further, appropriate reporting of holders of PTCs and SRs may be given by the securitization trust to the Income-tax Department.
(4) Municipal bonds may be given some fiscal support with such support taking the form of bond insurance or providing credit enhancement.
(5) Specialized debt funds may be created for infrastructure financing.

(d) & (e): The Hon`ble Finance Minister, in his Budget Speech 2006-07 has announced that the Government has accepted the recommendations of this Committee and steps shall be taken to create a single, unified exchange-traded market for corporate bonds. In pursuance to this, the Government of India is now examining each individual recomlJlendation and finalising the action to be taken for this purpose.